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How to Daytrade Bearish Intraday Chart Patterns

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MODULE 1

● Main Points:

- The main thing I want for you to learn in this lesson is how to recognize and avoid buying stocks that are about to go down. I want you to 'stay in the game' and preserve your capital. The odds are already against you, so let's even it up a bit while you learn.
- There are many more 'dangerous' or low-percentage chart patterns than there are high-percentage bullish patterns. When in doubt, stay out.
- Here's a tip that will help you mentally toughen up and get sharper in your daytrade quality and profits you are able to take from the market -- Before you buy any stock, or enter any trade, I want you to identify -
- Which of these three categories does the trade fall into?:

HIGH-PERCENTAGE DAYTRADE

- Stock is rebounding from an extreme oversold condition w/volume; or
- It's heading up in a steady trading channel on good volume; or
- You got in early on a positive news release and the stock is running; or
- Technicals (stochs, MACD, RSI, level2) tell you it's going up
- CNBC mentions the stock price being oversold w/no good reason, or a new deal etc. in a favorable way; or

"I DON'T KNOW" DAYTRADE

- You are not certain which way the stock will go
- You are bored and want to trade something, anything
- The stock has been fluctuating in a trading channel on flat volume
- The Level 2 bid and ask columns look similar, and there is no clear pattern in time and sales to follow

"LOW-PERCENTAGE" DAYTRADE

- Cheap chatroom stocks (eg EFAX to 2! its running!)
- See above
- Read it again
- It's lunchtime (11:30-1:30EST) and you like the stock's analysts ratings or the company's products/services
- Stock has run up over 20% in a spike upwards and you're chasing it
- Stock is gradually selling off and you think you found the bottom (famous last words)
- Stocks with wide spreads (1/4pt or bigger) and low volume (under 300K) Can you say

- You're scalping the stock off a support level that you are familiar with; also
- You're not buying it during the lunch 'deadzone' and
- The market is headed up

- "the mm's will eat you for lunch"?!
 • Shorting hi-flyers that have strong volume
 • Many many others to avoid

Obviously, you should avoid any but the high-percentage trade opportunities. Many new traders make trades "all over the map" instead of being selective.

To win at this, you must use a microscope and have the patience, strength, focus and determination to make solid trades. In time, you'll get a "it just feels right" trading sense based on all these factors that you now know to look for. "It gets easier in time; but it takes a lot of time before it gets easy."

Let's look at specific intraday chart patterns to be wary of: (Hint: as you look at these charts, put your hand/paper over the chart and move it slowly to the right, uncovering the chart, to simulate what happened over time during the trading day. See what "the first sign of trouble" was, based on the price and volume movement, along with the observations in text):

Downtrending Chart Patterns To Watch Out For: Breakdowns, Triangles, Down Channels, 'Pop n Drop' Spikes

- **Making lower lows and lower highs** is a sign of weakness.
- Here YHOO fails to make a higher high (warning #1), next, it bounces off a support line for a while. As soon as it makes a lower low, you know the **sellers are stronger**. Not a time to buy this one.
- (Shorter's note: Selling the stock where it failed to make a higher high is the short play here at 222, use the previous peak as your stop). We'll cover short plays in a later module; I



advise traders against shorting their first 6 months or so of trading).

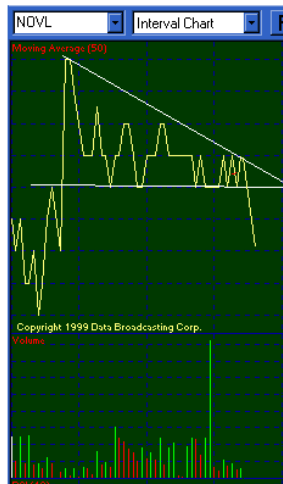
DESCENDING TRIANGLE:

The opposite of the bullish ascending triangle, what does this one tell you?

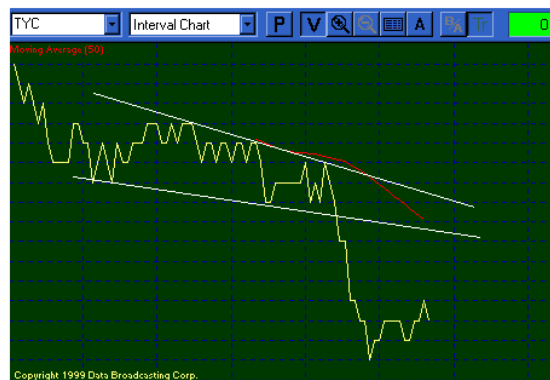
Right, there's not enough buying interest to keep the price headed up. So, we can expect the sellers to win the battle for now as the price drops.

Notice the volume spike followed by no uptrend? That's also a warning flag; it means there's more stock to sell than there is to buy, for now.

Where's a buy signal? Wait until the stock hits a low and rebounds w/higher highs/higher lows, or, wait til it breaks thru the previous top on strength.



- **DOWNTRENDING CHANNEL:** Here TYC is trending in a downwards channel, giving you plenty of warning before the price breaks to the downside.



- **Chatroom POP n DROP Spikes:** Avoiding

"JUST SAY NO" to Chatroom Hype Stocks Like These:

- **Chatroom POP n DROP Spikes:** Avoiding chatroom pump n dump specials is important. In their desire to have someone show them how to trade, many new traders will occasionally log onto the various free Mirc chatrooms to see "what's hot".

"JUST SAY NO" to Chatroom Hype Stocks Like These:



- Sometimes these calls are ok; many other times they are **junk**. I like to trade hi-percentage trades, of which most chatroom plays are not. They frontrun a stock, hype it and sell to the newbies while they're hyping it.
- It's dangerous, distracting communication that keeps you from learning how to trade for yourself. Talk to any pro daytrader who's made it; we'll tell you we do it the hard way, by learning daytrading mechanics.
- Anyways, avoid pump n dump chatroom specials. 'nuf said.



Other Times Not to Buy or Sell Stock:

- When you're tired - you need to be at your most alert to daytrade.
- When you've just had an argument or conflict with someone.
- When you've had alcohol to drink (save that for after hours!)
- When your computer and/or broker is "iffy". It's tough enough without that headache.
- Trading scared or in a losing streak: scale back and paper/smallshare trade til you get it back.
- When you're bored and you just feel like trading for trading's sake. Play a videogame instead.

Thoughts to trade by:

- Take a break from trading now and then; don't worry about "missing a big run"; they occur daily and the market will be here long after you and I are gone. It'll be there.
- Seize the moment and go for a walk or a cup of coffee somewhere, get a dessert, exercise, look out the window, go golfing etc.
- Your attitude is important: expect to win, but only after you learn, concentrate and practice.



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